DOW THEORY LETTERS INC.

RICHARD RUSSELL
P.O. Box 1759
La Jolla, Calif. 92037

36 Letters per Year—$60.00 Annually

Registered with the Securities Exchange Commission

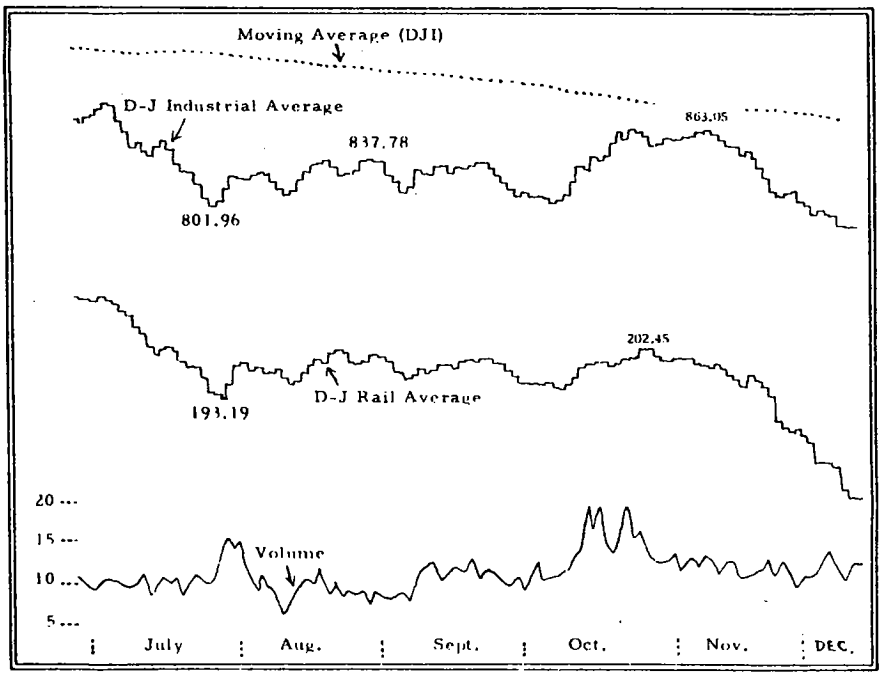
December 12, 1969 Letter 447

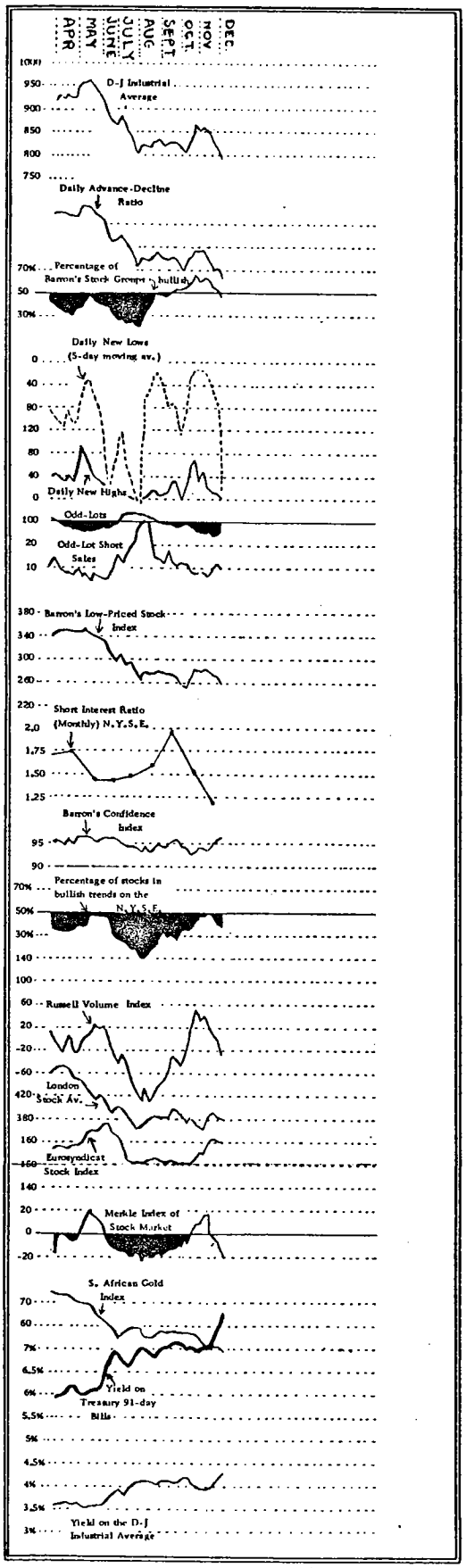
THE MARKET: Ever since the primary bear market started on February 9, 1966, an increasing army of speculators, amateurs, "gun slingers" and "hot fund" managers have been playing the Wall Street game. It is becoming clear, however, that it is not the speculators who are playing the bear, it is the bear market that is playing with the speculators.

On December 3, 1969, the Industrial Average closed at 793.36, a low for the year and the lowest Industrial closing since January 4, 1967. On the same day the Rail Average closed at 180.44, a low for 1969, and the lowest Rail closing since February 4, 1964. Utilities closed December 3 at 107.77, a new low for the year and the lowest level since June 29, 1962. On December 3 the D-J 40-Bond Average provided a reading of 69.40, its lowest reading since 1932. Finally, the advance-decline ratio on December 3 sank to a level not seen since the year 1950.

The incredible factor, however, was that with all these critical indicators at significant lows, the character of the decline did not change. It was a matter of steady erosion and deterioration rather than anything resembling panic. A good comparison may be made if we examine the "scary" 1962 decline and the eroding decline of 1969. In 1962 the advance-decline ratio dropped a total of 14 points, and that 14 point decline ended with action which can only be described as panic. Between January, 1969 and the low of a week ago the advance-decline ratio dropped a total of 18 points, indicating that breadth so far in 1969 has been considerably worse than during the year 1962. Yet strangely, a basic aura of optimism still reigns.

How can this be? How can a 14 point decline in breadth during 1962 produce panic while an 18 point breadth decline in 1969 produce nothing more than consternation and a stubborn faith that "things will get better in a month or so"? One factor is that the public after 1962 was finally "conditioned" to the





 idea that reactions, no matter how violent, are "always followed by new highs in the market." Wall Street had been through the declines of 1953, 1956, 1957 and 1960, each one more violent that the last, and still the Dow recovered to new highs. After 1962 anyone who sold out and remained bearish was considered to be a fool.

A second factor is that the public during the late-1960's became enamoured of the Government and its ability to manipulate the economy. The balance-of-payments deficits, the gold outflow, the debasement of coinage, the spiraling inflation, the towering interest rates, nothing has succeeded in shaking Wall Street in its faith that stocks follow the wishes and the desires of the Administration and the Federal Reserve Board.

A recent factor is the spectacle of the Government actually trying to slow a boom which will not quit. If the highest interest rates in history, a solid year of monetary restraint and weekly admonitions from the authorities cannot put a dent in the boom, it would seem that the economy wants to go nowhere but up. In view of this, reason the optimists, can stocks be far behind?

Personally, I believe that it will take some sort of a shock to reverse public and investor confidence. As far as the economy is concerned, such a shock is most likely to come from a credit crisis, and this is covered in a later section of this Letter ("The Nation on Margin"). From the stock market, the shock would be most likely to come from a Dow collapse through the 1966 low of 744.32.

Perhaps the best example of "conditioned thinking" was provided by the "Outlook" column on page 1 of the Wall Street Journal, December 8. The column began, "What the stock market needs is a good recession. There's nothing like a business slump to perk up stock prices. It may sound crazy, but that's what recent economic history shows." The article then goes on to examine the four post-World War II recessions and subsequent stock market action. But it is obvious that the Journal's writer is confusing recession and corrective action within a primary bull market with deterioration during a major primary bear market.

The reason stocks (in a bull market) decline, then start rising as business news turns bad is that stocks sell off early in order to discount a recession. Then, when signs of the recession appear, stocks rally as they look ahead and discount the end of the recession and the next boom period. Simple enough. But this time there is no "coming boom period" in sight. This time, stocks are declining in response to an approaching period of bear market economic chaos which hasn't even begun to be solved. Liquidation in the economy hasn't started. Deflation has hardly begun. Nothing is solved "across the valley." Thus the Journal writer, like our Administration, has failed to see the magnitude of the current bear market. All of which reminds me of the old adage, "When everybody thinks the same—they aren't thinking."

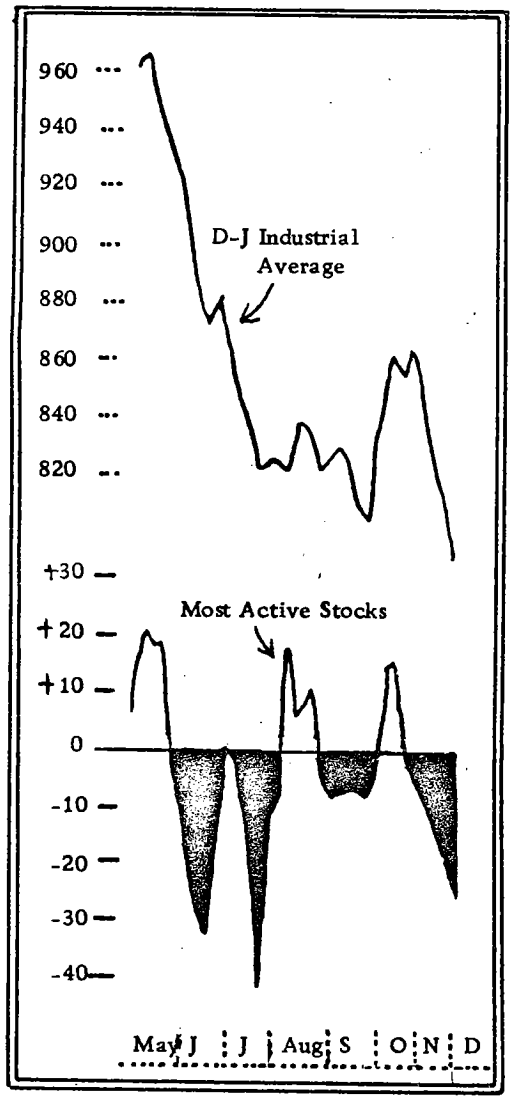
Turning to the stock market itself, the December 3 close of the Dow below 800 brought in little to suggest disillusionment on Wall Street. Despite the sweeping characteristic of the decline in terms of new lows in all the major indicators, there was an undercurrent sentiment to the effect that the break below 800 was "a trap." After a dip into the 790-800 level, runs the theory, all the bears will be shaken out along with the hysterical little old ladies, and the market will then put on a year end show on the upside. "False penetration" or not, I am afraid that this type of thinking merely indicates that people aren't seeing the big picture, the fundamental picture which I have presented to my subscribers over and over again.

The policy of attempting to outguess a primary bear market is almost always a costly one. Perhaps the worst thing that can happen to the speculator is to be right on the first bear market rally. This kind of success merely fortifies his feeling of omnipotence, and prepares him for the ultimate slaughter which every bear market produces. With the Dow Industrials 45 points above their 1966 lows, with Rails at the 1964 levels and with Utilities at the 1962 levels, I submit that on average most investors (even the more successful ones) are now showing losses for all their efforts since the February 9, 1966 bull market high. If, during the next few months the Dow elects to break its 1966 lows I would guess that almost everyone will be showing losses on their investments of the past five or six years.

It should be remembered that primary bear markets work exactly the reverse of primary bull markets. In bear markets, the price action from top to bottom takes the form of a series of rallies and declines, with each major decline probing a lower level. Hopes are raised on each rally—but on a diminishing scale, and pessimism increases with each decline—but on an increasing scale. Finally, hope is abandoned even on the rallies while the declines bring on panic. This type of psychology, by the way, is characteristic of the end of the second (bear market) phase and it persists during almost all of the third and final phase.

MOST ACTIVE INDEX: I am presenting a study which I find very helpful in gauging the technical condition of the market. Each week Barron's lists the 20 most active stocks on the N.Y.S.E. It takes big money, lots of it, to put a stock on the weekly most active list. This study is based on the premise that regardless of what the Averages or anything else is doing, if a majority

of the 20 most active stocks are up for the week, the implication is that big money is accumulating. Conversely, if the majority of the most active stocks are down, big money is distributing.



Obviously, the action of the 20 most active stocks during any single week is not critical, but if we arrange a chart showing a three week total of pleuralities, the trend as shown on the chart should be significant. The best possible total on a three week reading would be plus 60, and this would mean that all 20 stocks were up three weeks in a row. As a matter of actual fact, the best reading of the past five years for the index was 45, so we shall call 45 a very bullish reading. The converse is true on the downside, in that if all 20 active stocks were down for three weeks in a row we would get a reading of minus 60. Actually, the worst readings of the last five years were the minus 39 of mid-1965 and the minus 42 of October, 1966, and the latest—the minus 43 of mid-July, 1969.

I have included the three-week pleurality chart of the 20 most actives since May, 1969. Note that since May there have only been four weeks when the index pushed above zero, and this alone suggests continuous distribution in the most actives. The best reading on the rally which followed the July, 1969 low was a plus 18 on the week ending August 15, at which time the Dow was 820. The Index promptly sank to a minus 9 on the week of September 12.

A sharp rally then took the Dow to the October 24 high of 862, but note that on that week the Index climbed to a peak of plus 15, which was under the previous high of plus 18 when the Dow was 42 points lower. This was hardly a heartening performance, but it was not conclusive either. The readings on the Index following the plus 15 of October 24 were highly indicative however, and they served to increase my near-term bearishness. Following the October 24 peak of plus 15, the Index dropped to minus 1 on October 31, minus 4 on November 7, minus 10 on November 14, minus 13 on November 13, minus 20 on November 28, minus 26 on the latest week ending December 5.

This means that the leadership on the N.Y.S.E. has been on the downside (distribution) ever since the end of October. Not only have the volume leaders been subject to distribution, but I was most interested in the quality of leadership on the day the Dow broke 800. I include the list of 20 most for December 2 (Dow closed at 801.35) and December 3 (Dow broke 800 to close at 793.36). Note the extraordinary number of high-grade stocks which traded on those two days among the top twenty. No less than 7 Dow stocks made the most-active list on December 2, while 6 made the list on December 3. In other words, the big Dow stocks not only were responsible for the cracking of the 800 level, but it was the Dow stocks in heavy volume, which shattered the 800 mark.

THE NATION ON MARGIN: A good many people can add and subtract figures, but very few of them get anything out of those figures or draw any valid conclusions. My friend Irving Weiss of Capital Advisors (70 Wall St., N.Y. 10005) has always been an original, a man who can put figures and facts together and make remarkable sense out of them.

Years ago Irving Weiss told me that the next major trouble would be brought on by debt, skyrocketing interest rates and unbridled inflation. He was talking about this long, long before the majority of analysts had any inkling of what was going to produce the next primary bear market.

MOST ACTIVE STOCKS

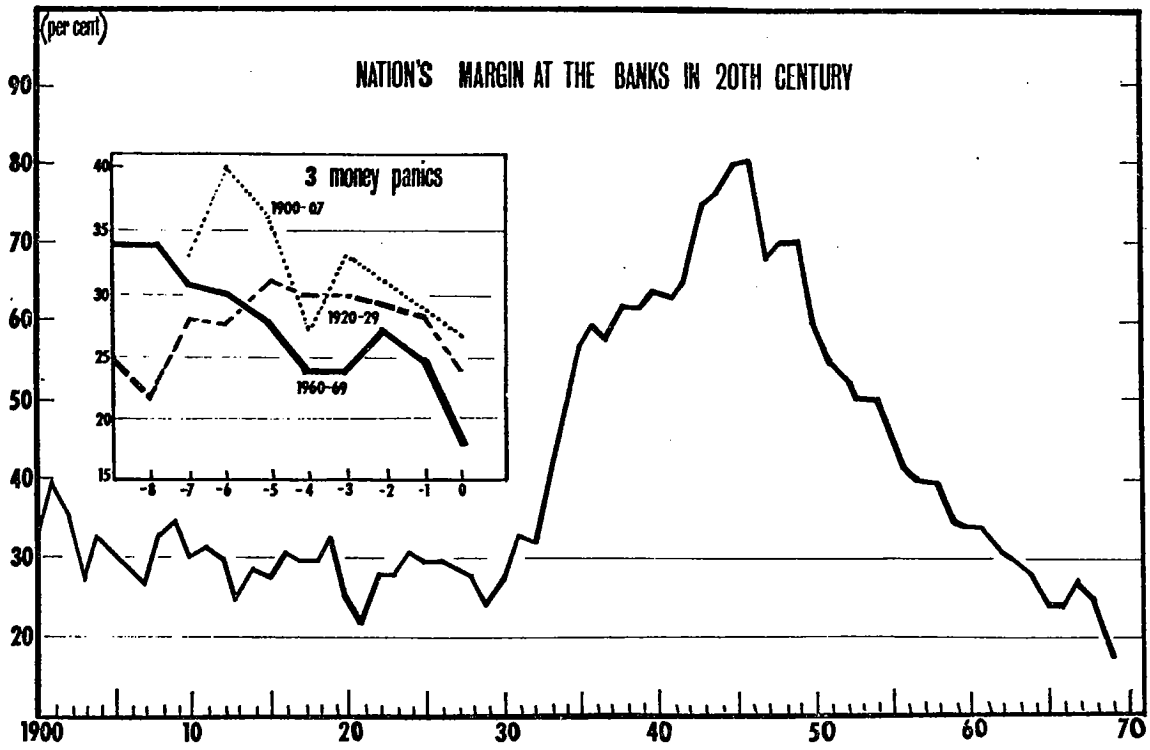
NEW YORK (AP) — Sales, closing prices, net change in most active stocks:

Dec. 2, 1969	Total Sales	Last Sale	Net Change		Total Sales	Last Sale	Net Change
Int Tel Tel	191,600	57⅜	— ⅜	Memorex	63,500	163½	.....
Phill Pet	95,900	24	— ⅝	Std Oil Cal	62,200	50	.....
Am Tel Tel	78,800	51	— ⅝	Comput Sci	61,700	285⅝	— ½
Int Nickel	75,700	42¼	+ ¼	Std Oil NJ	60,300	61⅜	+ ⅜
Gen Motors	69,300	70⅜	+ ⅜	Occiden Pet	58,700	24¼	— ⅜
US Steel	69,100	35	— ⅛	Unvsty Cmp	57,600	95⅜	+1¼
Gulf Oil	67,500	29½	— ¼	Atl Rich	56,900	92⅜	+ ⅞
Texaco	64,700	29⅝	— ⅝				

MOST ACTIVE STOCKS

NEW YORK (AP) — Sales, closing prices, net change in most active stocks:

Dec. 3, 1969	Total Sales	Last Sale	Net Change		Total Sales	Last Sale	Net Change
Webb Del E	245,300	11⅝	—1⅜	Std Oil NJ	84,200	60¾	— ⅜
Grummn Cp	170,200	26	— ¼	Phill Pet	77,100	23⅜	— ⅝
AtlRh 2.80pf	116,600	57⅜	—2⅞	Ford Mot	75,600	41⅛	— ¾
Gulf Oil	106,500	29	— ½	Std Oil Cal	71,500	49	—1
Gen Motors	102,200	69⅞	— ¾	Int Nickel	70,100	42	— ¼
Occiden Pet	101,600	23½	— ¾	Bell Howell	67,000	55⅛	—2⅛
Am Tel Tel	96,500	50½	— ½	Comput Sci	64,600	27¾	— ⅞
Texaco	91,000	28¾	— ⅞				



In his latest report, Weiss presents a very interesting study. He shows that the nation is now on "margin" to an extent never before seen. What does Weiss mean by the Nation being on margin? Let's take the case of a brokerage account. A man buys $100,000 in stocks, and he has $80,000 cash at the brokers. This puts him on an 80% margin, since he has $8 in cash standing against every $10 in equity at the broker.

Weiss has taken the value of all deposits and savings in three key financial institutions in the U.S., Commercial banks, savings banks, and savings & loans. This corresponds to the value of the stocks in the previous margin example. Against this he puts all loans at these three key types of institutions. The next result is a shocker, and I have included the figures below.

The National Account

Value of all deposits and savings	$581 billion
Loans at the banks	$477 billion
Net equity	$104 billion
Margin	18%

Now 18% margin on the national account may not mean much to the average reader. So we have to put this 18% into some sort of historical context. I am reproducing a chart from Weiss' recent report showing just how the nation's "margin" appeared for the period of 1900 to date. You don't have to be a "chart-hound" to draw any conclusions from this picture.

In the last Letter I quoted Donald Storey of the Bank Credit Analyst as saying that the bank credit picture is now "....as bad as, or worse than any time since 1929." Many readers may have thought that Storey's statement was a bit on the rash side. To skeptical readers I recommend a study of the 70-year chart which appears above. Never before has the nation's "equity position" been this low. Never before has so little cash been behind so much debt.

In view of this chart, one can see how dangerous further losses at the three key savings institutions can become. And with dis-intermediation continuing at all three types of savings institutions, I would say that based on past history we are beyond the point of no-return.

A dozen conclusions or inferences can be drawn from today's dangerous low-equity position in the U.S., but here are just a few. It takes a very high-level economy to service a high debt. But when that high debt is covered by a very low equity, the situation smacks of bankruptcy when sales (and profits) decline. An economic squeeze in the mid-1940's or 1950's when the nation's

margin position was 70 or 80% was not serious. A recession with the nation on 18% margin is fraught with danger.

If a squeeze comes now or in 1970, mountains of quick cash will have to be raised to cover debt which will fall due and interest on that debt. When you are loaned up and you need cash, you get it by liquidating. The first stage of the "low-margin syndrome" is characterized by rising interest rates as is now the case. Interest rates rise because institutions are pouring into the money market for all available cash. The second stage is the liquidating stage when money must be raised any way at any cost. This is the crisis stage, and it lies ahead.

Almost every week one hears some noted economist say that things might level off and the stock market might drop, but "of course it could never be anything like 1929." My only answer is that it probably won't be like 1929, because things are never the same. In some ways the nation is in better shape than it was in 1929. But in other ways we are worse off. We are, for instance, more margined in the economy now than we were in 1929. And as everyone knows, we have far less gold now than we did in 1929. I don't pretend to know how the bear market which is following the 17-year bull market of 1949-1966 is going to work out. But I warn my readers to avoid preconceived notions.

CONSCIENCE: Mr. Meadlo said that more than 70 villagers were taken to the edge of a ditch, pushed over, and shot with automatic fire, then single shots "so that we could save our ammo." Mr. Wallace asked, "How do you shoot babies?" "I don't know," Mr. Meadlo replied, "It's just one of them things."

Describing the shooting at one point, he said, "And the mothers was hugging their children and --- but they kept right on firing. Well, we kept right on firing. They was waving their arms and begging."

Asked how he felt during the shooting, he said, "It just seemed like it was the natural thing to do at the time. I don't know. It just--I was getting relieved from what I'd seen earlier over there.....I see the women and children in my sleep. I can't even sleep. I just lay there thinking about it." (From the New York Times, Nov. 25, regarding a Vietnam massacre by American soldiers).

More testimony from Varnado Simpson....He said Captain Medina had instructed his men to "kill or burn down anything in sight."......Mr. Simpson said a woman was running about 20 yards ahead of the soldier. An interpreter with the Americans shouted at the woman to stop, and said that when she failed to do so, his platoon leader, whom he remembers only as Lieutenant Brooks, ordered him to shoot her. He did. (New York Times).

A final selection from Meadlo: "Why did I do it? Because I felt like I was ordered to do it, and it seemed like that---at the time I felt like I was doing the right thing, because, like I said, I lost buddies."

So there it is, fragments from what promises to be one of the moral shockers of the decade. And remember, we're not hearing Nazis testify about Auchwitz or Bergen-Belsen, we're hearing American boys testifying about atrocities in Vietnam.

How does it happen? What makes a man blow the brains out of women and babies and unarmed old men? Undoubtedly, there were those in command who were cold-blooded killers, psychopaths, demented or partially insane. But what makes other men follow the orders of a murderer or a madman, that is the burning question? And what makes a man do something which is against his conscience, something which will haunt his dreams for the rest of his life?

For one thing, fear will do it. Fear can override a man's conscience, and cause him to do things that he would never do in a normal state. The testimonies from Germany, from both Jews and Gentiles, prove that. Another factor is mob psychology. Men get caught up in mass psychology and they'll enter into a "mass crime" when they would never perform the act alone. Mass psychology often exerts a suspension of thinking ability, a sort of hypnotic effect. A third factor is that men will commit atrocities during a war because the morality of the times allow them to rationalize away their morality. "All's fair in love and war," goes the old adage, and under stress, a man's unconscious aggressive feelings may take over---without interference from his conscience or "super-ego".

When a man gives up his conscience he is an animal. When a man can say, "I did it because I was following orders" he is no better than an animal. Now some Governments have a sort of collective conscience, because their leaders are basically "good" men. Some governments are evil, because their leaders are essentially evil. But most governments are not good and not bad. They have areas of conscience and other areas where evil presides.

So basically, it comes down to the individual. Some men will die rather than go against their conscience, while others will follow orders and so to speak "play it safe." My own theory is that playing it safe has been one of the banes of the world. There would have been no United States if the fathers of the American Revolution had played it safe. There would have been no real knowledge of the mind if Freud had played it safe. The men who have moved the world in the right direction have never played it safe. If they had, they could not have moved a pebble.

So that's the way I see it. If you won't sacrifice anything in response to your conscience, you're murdering something. It may be a child in Vietnam, it may be an idea which would help humanity, or it may be your own soul that you are murdering. "To thine own self be true," wrote Shakespeare, and if you can't do that you're nothing. You're an insect that was born, ate, grew old, and died.

A man doesn't have to be a member of an organized religion to have a conscience, but he had to believe that there's something bigger than himself. Call that "something" by any name you want, but before you die you'll answer to it.

From the November 25 New York Times: Mr. Meadlo reported that on the day after the alleged massacre, he stepped on a land mine and subsequently lost a foot. Meadlo was interviewed on CBS on November 24. He was asked, "Did you feel any sense of retribution to yourself after that day?" Meadlo: "Well, I felt that I was punished for what I'd done. Later on in that day, I felt like I was being punished."

GENERAL MOTORS: Back in Letter 436 I included a double chart of General Motors, comparing the price action during the 1920's and early 1930's with the action of the past decade. I continue to feel that the two periods of action bear remarkable similarities. Note the run-up to the 1928-29 distribution top (small insert chart), comparable to the 1964-65 action. Then there was the huge 1929 break, which is not unlike the 1966 break. Next came the distribution of 1930 and early-1931, followed by the collapse in late-1931 and 1932. This can be compared with the 1967-69 action, although of course, we do not yet know whether GM is fated to plunge down again in the manner of late-1931 and 1932.

As this is written, however, GM has sunk to the 66 level, and if it goes to 65 it will have penetrated the 1966 bottom and sunk to its lowest level since 1963. This could send it down to the 1960-62 area of 40 to 50 for its next major test. I wrote in the last Letter that I believed a penetration of the 1966 low for GM would be a very bearish "prediction" for the auto industry and the economy. I have not changed my mind.